

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Sandy Lee Watkins, Henderson County Judge/Executive

Members of the Henderson County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements.

We engaged Kem, Duguid & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated the Henderson County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HENDERSON COUNTY FISCAL COURT**

June 30, 2008

Kem, Duguid & Associates, PSC has completed the audit of the Henderson County Fiscal Court for the fiscal year ended June 30, 2008. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Henderson County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$15,671,631 as of June 30, 2008. The fiscal court had unrestricted net assets of \$7,873,723 in its governmental activities as of June 30, 2008 with total net assets of \$15,617,641. In its business-type activities, total net cash and cash equivalents were \$49,940 with total net assets of \$53,990.

Debt Obligations:

Total bonded debt principal as of June 30, 2008, was \$15,880,000. Future collections of \$22,025,394 are needed to pay all bonded debt principal and interest.

Report Comments:

- 2008-01 The Fiscal Court Should Fix Compensation For County Employees
- 2008-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Payroll Processes
- 2008-03 Improvements Are Needed Regarding Proper Recording Of Capital Assets

Deposits:

The fiscal court's deposits, as of June 30, 2008, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$89,952.

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize fiscal court's deposits in accordance with the security agreement.

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE & DEVELOPMENT
PROGRAMS

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA

WALTER G. CUMMINGS, CPA



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henderson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henderson County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Henderson County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

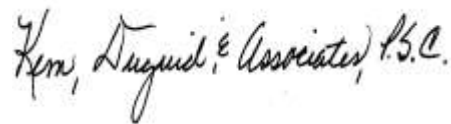
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henderson County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 18, 2009 on our consideration of Henderson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The Fiscal Court Should Fix Compensation For County Employees
- 2008-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Payroll Processes
- 2008-03 Improvements Are Needed Regarding Proper Recording Of Capital Assets

Respectfully Submitted,



Kem, Duguid & Associates, PSC
Certified Public Accountants

May 18, 2009

HENDERSON COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Sandy Lee Watkins	County Judge/Executive
Carter Wilkerson	Magistrate
Charles G. Alexander	Magistrate
Donald Hugh McCormick	Magistrate
Bruce Todd	Magistrate
Ray Lacer	Magistrate

Other Elected Officials:

Charles McCollum	County Attorney
Ron Herrington	Jailer
Renny Matthews	County Clerk
Frances R. London	Circuit Court Clerk
Mark E. Brady	Sheriff
Howard Moran	Property Valuation Administrator
Bruce Farmer	Coroner

Appointed Personnel:

Rebecca I. Carroll	County Treasurer
Brenda Duncan-Rider	Finance Officer



OFFICE OF THE COUNTY JUDGE/EXECUTIVE
COURTHOUSE
Henderson, Kentucky 42420

SANDY L. WATKINS
HENDERSON COUNTY JUDGE/EXECUTIVE

TELEPHONES
(270) 826-3971
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Management's Discussion and Analysis
June 30, 2008

The financial management of Henderson County, Kentucky offers readers of Henderson County's financial statements this narrative overview and analysis of the financial activities of Henderson County for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Henderson County had net assets of \$15,671,631 as of June 30, 2008. The fiscal court had unrestricted net assets of \$7,873,723 in the governmental activities as of June 30, 2008, with total net assets of \$15,617,641. In its enterprise fund, cash, and cash equivalents were \$49,940 with total assets of \$53,990. Total debt for governmental funds principal as of June 30, 2008 was \$15,880,000 with \$690,000 due within one year.
- The governmental activities total net assets increased by \$1,762,566 from the prior year. This increase is primarily due to the purchase of vehicles and equipment and increased expenditures in infrastructure for state grant projects.
- At the close of the current fiscal year, Henderson County governmental funds reported current assets of \$7,821,102. Of this amount, \$7,604,687 is available for spending at the government's discretion (unrestricted fund balance).
- Henderson County's total indebtedness at the close of the fiscal year June 30, 2008 was \$15,880,000. Of that, \$15,190,000 is long-term debt (due after 1 year) and \$690,000 is short-term debt (to be paid within 1 year). This is a reduction of the debt service payment for one year.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Henderson County's Basis financial statements. Henderson County's basis financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basis financial statements themselves.

**Henderson County
Management's Discussion and Analysis
June 30, 2008
(Continued)**

Overview of the Financial Statements (Continued)

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Henderson County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Henderson County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Henderson County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Henderson County's governmental activities include general government, protection to persons and property, roads, recreation and culture, general health and sanitation, bus services, social services, other transportation facilities and services, debt service, and capital projects. Henderson County has one business type activity-Jail Canteen Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Henderson County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of Henderson County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Henderson County
Management's Discussion and Analysis
June 30, 2008
(Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Henderson County maintains (9) nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the major funds and combined for the non-major funds.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Local Government Economic Assistance Fund

Non-major Funds:

- State Grant Fund
- Economic Development Fund
- Public Properties Corporation Capital Projects Fund
- Public Properties Corporation Debt Service Fund
- General Obligation Bond Fund

Henderson County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for the general, road, jail fund, and LGEA funds to demonstrate compliance with their budgets.

Proprietary Fund. The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund and the Health Insurance Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Henderson County
Management's Discussion and Analysis
June 30, 2008
(Continued)

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Henderson County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Assets						
Current and other assets	\$ 7,551,914	\$ 8,088,249	\$ 8,566	\$ 49,940	\$ 7,560,480	\$ 8,138,189
Non current and capital assets	22,768,161	23,409,392	5,478	4,050	22,773,639	23,413,442
Total Assets	30,320,075	31,497,641	14,044	53,990	30,334,119	31,551,631
Liabilities						
Current and other liabilities	585,000	690,000			585,000	690,000
Long-term liabilities	15,880,000	15,190,000			15,880,000	15,190,000
Total Liabilities	16,465,000	15,880,000			16,465,000	15,880,000
Net Assets						
Invested in capital assets, net of related debt	6,293,081	7,521,328	5,478	4,050	6,298,559	7,525,378
Restricted	217,093	222,590			217,093	222,590
Unrestricted	7,344,901	7,873,723	8,566	49,940	7,353,467	7,923,663
Total Net Assets	\$ 13,855,075	\$ 15,617,641	\$ 14,044	\$ 53,990	\$ 13,869,119	\$ 15,671,631

**Henderson County
Management's Discussion and Analysis
June 30, 2008
(Continued)**

Government-wide Financial Analysis (Continued)

**Table 2
Henderson County's Comparison
Of General Revenue By Source And
Program Expenses By Function**

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenue						
General Revenue and Taxes	\$ 8,880,679	\$ 9,298,304	\$ 213	\$ 341	\$ 8,880,892	\$ 9,298,645
Charges for Services	2,088,980	2,304,893	341,484	408,888	2,430,464	2,713,781
Operating Grants and Contributions	3,497,419	4,629,375			3,497,419	4,629,375
Capital Grants and Contributions	2,080,713	1,917,493			2,080,713	1,917,493
Total Revenue	16,547,791	18,150,065	341,697	409,229	16,889,488	18,559,294
Expenses						
General Government	6,828,120	7,780,331			6,828,120	7,780,331
Protection to Persons and Property	4,575,035	4,737,434			4,575,035	4,737,434
General Health and Sanitation	293,996	199,383			293,996	199,383
Social Services	137,249	302,871			137,249	302,871
Recreation and Culture	14,000	18,500			14,000	18,500
Other Transp. Facilities and Services		32,500				32,500
Roads	2,887,937	2,680,343			2,887,937	2,680,343
Debt Service	1,141,668	634,121			1,141,668	634,121
Capital Projects	24,310				24,310	
Jail Canteen			343,075	369,283	343,075	369,283
Total Expenses	\$15,902,315	\$16,385,483	\$ 343,075	\$ 369,283	\$16,245,390	\$16,754,766

Changes In Net Assets.

Governmental Activities. Henderson County's net assets increased by \$1,762,566 during the fiscal year 2008. The key element in that increase was the acquisition of new machinery equipment and vehicles, state grant projects, and the reduction of debt service.

Business Activities. Henderson County's net assets increased by \$39,946. The key element in that was the increase in capacity at the jail.

As noted earlier, Henderson County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Financial Analysis of the County's Funds

Governmental Fund Overview. The focus of Henderson County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**Henderson County
Management's Discussion and Analysis
June 30, 2008
(Continued)**

Financial Analysis of the County's Funds (Continued)

As of the end of June 2008 fiscal year, the combined ending fund balances of County governmental funds were \$7,821,102. Approximately 97% (\$7,604,687) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance is reserved to indicate that it is not available for new spending or it is committed for the various encumbrances.

The General Fund is the chief operating fund of Henderson County. At the end of June 30, 2008 fiscal year, unreserved fund balance of the General Fund was \$5,200,411. The County received \$4,613,403 in real and personal property, motor vehicle, and other taxes for approximately 25% of the county's general revenues. Various other service fees, miscellaneous revenues, and interest income contribute to the remaining 75% of revenues.

The Road Fund is the fund related to County road and bridge construction and maintenance. Expenditures for fiscal year ending June 30, 2008 totaled \$3,299,737.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund's main source of revenue was from housing of prisoners. Holding state and federal prisoners contributed \$3,659,336 to the jail operations.

The Local Government Economic Assistance Fund's primary source of revenue comes from coal severance and mineral taxes. It had an ending fund balance of \$985,775.

The State Grant Fund is primarily made up of flow-through money for grants such as Juvenile Justice Grants where funding is from the state. The ending fund balance was \$33,426 and of that amount, all was for grants that had not yet had fiscal court approval for reimbursement.

The Economic Development Fund has not had much activity in the past several years. Its ending fund balance was \$1,358, and the only activity was the airport terminal expansion project.

The General Obligation Bond Fund had an ending fund balance of zero.

The Public Properties Corporation Debt Service Fund had an ending fund balance of \$756.

The Public Properties Corporation Capital Projects Fund had an ending balance of \$221,834.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Henderson County's proprietary funds are the Jail Canteen Fund and the Health Insurance Fund. The Jail Canteen Fund's total net asset balance was \$53,990. The Health Insurance Fund's total cash balance was \$265,131.

**Henderson County
Management's Discussion and Analysis
June 30, 2008
(Continued)**

General Fund Budgetary Highlights.

Henderson County's General Fund budget was amended one time during the fiscal year for an increase of \$150,000.

Capital Assets and Debt Administration.

Capital Assets. Henderson County's investment in capital assets for its government and business-type activities as of June 30, 2008, amount to \$23,405,378 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, current infrastructure additions, construction in progress for park improvements, and old jail improvement. Henderson County has reported infrastructure assets per GASB 34 provisions.

Additional information of the County's capital assets can be found in Note 4 of this report.

**Table 3
Henderson County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Infrastructure Assets	\$ 2,582,773	\$ 2,771,420	\$	\$	\$ 2,582,773	\$ 2,771,420
Land and Construction						
In Progress	518,212	533,213			518,212	533,213
Buildings	17,476,667	17,933,522			17,476,667	17,933,522
Vehicles and Equip.	2,180,429	2,163,173	5,478	4,050	2,185,907	2,167,223
Total Net Capital Assets	<u>\$ 22,758,081</u>	<u>\$ 23,401,328</u>	<u>\$ 5,478</u>	<u>\$ 4,050</u>	<u>\$ 22,763,559</u>	<u>\$ 23,405,378</u>

Long-Term Debt. At the end of the 2008 fiscal year, Henderson County had total bonded debt outstanding of \$6,540,000 from General Obligation Bonds and \$9,340,000 from Revenue Refunding Bonds. Additional information on the County's long-term debt can be found in Note 5.

Other Matters. The following factors are expected to have a significant effect on the County's financial budget or results of operations and were taken into account in developing the 2008 fiscal year budget:

- The 2008 fiscal year adopted budget continues most services at current levels.
- The cost of housing prisoners and their medical bills will have a negative impact on funding for our detention center.
- The rising cost of benefits for our employees (health insurance and retirement (is growing faster than other areas of the budget.

Requests For Information.

This financial report is designed to provide a general overview of Henderson County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Henderson County Treasurer, 20 N. Main Street, Henderson, KY 42420.

HENDERSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

HENDERSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 8,086,233	\$ 49,940	\$ 8,136,173
Receivables	2,016		2,016
Total Current Assets	<u>8,088,249</u>	<u>49,940</u>	<u>8,138,189</u>
Noncurrent Assets:			
Receivables - Long Term	8,064		8,064
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	533,213		533,213
Buildings	17,933,522		17,933,522
Vehicles and Equipment	2,163,173	4,050	2,167,223
Infrastructure	2,771,420		2,771,420
Total Noncurrent Assets	<u>23,409,392</u>	<u>4,050</u>	<u>23,413,442</u>
Total Assets	<u>31,497,641</u>	<u>53,990</u>	<u>31,551,631</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	690,000		690,000
Total Current Liabilities	<u>690,000</u>		<u>690,000</u>
Noncurrent Liabilities:			
Bonds Payable	15,190,000		15,190,000
Total Noncurrent Liabilities	<u>15,190,000</u>		<u>15,190,000</u>
Total Liabilities	<u>15,880,000</u>		<u>15,880,000</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	7,521,328	4,050	7,525,378
Restricted For:			
Capital Projects	221,834		221,834
Debt Service	756		756
Unrestricted	7,873,723	49,940	7,923,663
Total Net Assets	<u>\$ 15,617,641</u>	<u>\$ 53,990</u>	<u>\$ 15,671,631</u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 7,780,331	\$ 760,699	\$ 25,257	\$
Protection to Persons and Property	4,737,434	1,283,829	3,922,518	944,266
General Health and Sanitation	199,383			
Social Services	302,871			
Recreation and Culture	18,500			
Other Transportation Facilities and Services	32,500			
Roads	2,680,343	260,365		973,227
Debt Service	634,121		681,600	
Total Governmental Activities	16,385,483	2,304,893	4,629,375	1,917,493
Business-type Activities:				
Jail Canteen	369,283	408,888		
Total Business-type Activities	369,283	408,888		
Total Primary Government	\$ 16,754,766	\$ 2,713,781	\$ 4,629,375	\$ 1,917,493

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Insurance Premium Taxes
In Lieu Tax Payments
Coal Severance Tax
Mineral Tax
Other Taxes

Excess Fees

Commission

Miscellaneous Revenues

Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (6,994,375)	\$	\$ (6,994,375)
1,413,179		1,413,179
(199,383)		(199,383)
(302,871)		(302,871)
(18,500)		(18,500)
(32,500)		(32,500)
(1,446,751)		(1,446,751)
47,479		47,479
(7,533,722)		(7,533,722)
	39,605	39,605
	39,605	39,605
(7,533,722)	39,605	(7,494,117)
1,991,705		1,991,705
337,792		337,792
264,033		264,033
1,544,419		1,544,419
347,006		347,006
668,376		668,376
439,950		439,950
475,454		475,454
2,362,413		2,362,413
252,960		252,960
351,835		351,835
260,345	341	260,686
9,296,288	341	9,296,629
1,762,566	39,946	1,802,512
13,855,075	14,044	13,869,119
\$ 15,617,641	\$ 53,990	\$ 15,671,631

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 5,324,932	\$ 11,058	\$ 1,241,963	\$ 985,775
Total Assets	<u>5,324,932</u>	<u>11,058</u>	<u>1,241,963</u>	<u>985,775</u>
FUND BALANCES				
Reserved for:				
Encumbrances	87,521			91,894
Cemetery Fund	37,000			
Unreserved:				
General Fund	5,200,411			
Special Revenue Funds		11,058	1,241,963	893,881
Capital Projects Fund				
Debt Service Fund				
Total Fund Balances	<u>\$ 5,324,932</u>	<u>\$ 11,058</u>	<u>\$ 1,241,963</u>	<u>\$ 985,775</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 257,374</u>	<u>\$ 7,821,102</u>
<u>257,374</u>	<u>7,821,102</u>
	179,415
	37,000
	5,200,411
34,784	2,181,686
221,834	221,834
<u>756</u>	<u>756</u>
<u>\$ 257,374</u>	<u>\$ 7,821,102</u>

Reconciliation of the Balance Sheet-Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 7,821,102
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,524,068
Accumulated depreciation	(6,122,740)
Internal Service Funds are used by management to charge the cost of health insurance to individuals funds. The assets and liabilities of this fund are reported with governmental activities.	265,131
Receivables reported at the Government-wide level are not current financial resources and, therefore, are not reported in the funds.	10,080
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Revenue Refunding Bonds	(9,340,000)
General Obligation Bonds	(6,540,000)
Net Assets Of Governmental Activities	<u>\$ 15,617,641</u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 4,613,403	\$	\$	\$
In Lieu Tax Payments	347,006			
Excess Fees	134,903			
Licenses and Permits	181,830			101,511
Intergovernmental	2,827,878	1,455,049	5,002,650	1,133,583
Charges for Services	4,032	27,478	110,132	
Miscellaneous	122,324	56,753	385,484	42,250
Interest	204,562	3,699	27,923	14,267
Total Revenues	<u>8,435,938</u>	<u>1,542,979</u>	<u>5,526,189</u>	<u>1,291,611</u>
EXPENDITURES				
General Government	5,181,212			99,216
Protection to Persons and Property	538,398		3,631,306	189,837
General Health and Sanitation				199,383
Social Services				157,827
Recreation and Culture				18,500
Other Transportation Facilities and Services				32,500
Roads		2,727,934		214,620
Debt Service				
Capital Projects	702,939			
Administration	514,549	571,803	746,142	17,500
Total Expenditures	<u>6,937,098</u>	<u>3,299,737</u>	<u>4,377,448</u>	<u>929,383</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,498,840</u>	<u>(1,756,758)</u>	<u>1,148,741</u>	<u>362,228</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	450,000	2,200,000	100,000	875,000
Transfers To Other Funds	(1,980,000)	(525,000)	(637,521)	(1,075,000)
Total Other Financing Sources (Uses)	<u>(1,530,000)</u>	<u>1,675,000</u>	<u>(537,521)</u>	<u>(200,000)</u>
Net Change in Fund Balances	(31,160)	(81,758)	611,220	162,228
Fund Balances - Beginning (Restated)	5,356,092	92,816	630,743	823,547
Fund Balances - Ending	<u>\$ 5,324,932</u>	<u>\$ 11,058</u>	<u>\$ 1,241,963</u>	<u>\$ 985,775</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 4,613,403
	347,006
	134,903
	283,341
1,343,454	11,762,614
	141,642
	606,811
9,894	260,345
<u>1,353,348</u>	<u>18,150,065</u>
491,986	5,772,414
53,237	4,412,778
	199,383
145,044	302,871
	18,500
	32,500
	2,942,554
1,219,121	1,219,121
	702,939
34,620	1,884,614
<u>1,944,008</u>	<u>17,487,674</u>
<u>(590,660)</u>	<u>662,391</u>
592,521	4,217,521
	(4,217,521)
<u>592,521</u>	
1,861	662,391
255,513	7,158,711
<u>\$ 257,374</u>	<u>\$ 7,821,102</u>

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

**HENDERSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	662,391
--	----	---------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Assets disposed of, Net Book Value		(16,500)
Capital Outlay		1,580,745
Depreciation Expense		(920,998)

Internal Service Funds are used by management to charge

the cost of health insurance to individuals funds. The net revenues (expenses) of this fund are reported with governmental activities.		(126,056)
--	--	-----------

Payment on receivables provide current financial resources to Governmental Funds, while at the Government-wide level, a reduction of the receivable occurs. These transactions have no effect on net assets.

Receivable Receipts		(2,016)
---------------------	--	---------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. While the repayment of principal on long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets.

Bond Payments		585,000
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Change in Net Assets of Governmental Activities	\$	<u>1,762,566</u>
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HENDERSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

HENDERSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Insurance Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 49,940	\$ 265,131
Total Current Assets	<u>49,940</u>	<u>265,131</u>
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	27,000	
Less Accumulated Depreciation	<u>(22,950)</u>	
Total Noncurrent Assets	<u>4,050</u>	
Total Assets	<u>53,990</u>	<u>265,131</u>
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	4,050	
Unrestricted	49,940	265,131
Total Net Assets	<u>\$ 53,990</u>	<u>\$ 265,131</u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Operating Revenues		
Canteen Receipts	\$ 408,888	\$
Reimbursements		1,434,386
Total Operating Revenues	<u>408,888</u>	<u>1,434,386</u>
Operating Expenses		
Cost of Sales	291,881	
Educational and Recreational	14,887	
Claims		1,000,386
Administrative	57,093	569,176
Depreciation	1,428	
Miscellaneous	3,994	
Total Operating Expenses	<u>369,283</u>	<u>1,569,562</u>
Operating Income (Loss)	<u>39,605</u>	<u>(135,176)</u>
Nonoperating Revenues (Expenses)		
Interest Income	341	9,120
Total Nonoperating Revenues		
(Expenses)	<u>341</u>	<u>9,120</u>
Change In Net Assets	39,946	(126,056)
Total Net Assets - Beginning	14,044	391,187
Total Net Assets - Ending	<u>\$ 53,990</u>	<u>\$ 265,131</u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HENDERSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Cash Flows From Operating Activities		
Receipts From Customers	\$ 408,888	\$
Reimbursements		1,434,386
Cost of Sales	(291,881)	
Educational and Recreational	(14,887)	
Claims		(1,000,386)
Administrative	(57,093)	(569,176)
Miscellaneous	(3,994)	
Net Cash Provided (Used) By		
Operating Activities	41,033	(135,176)
Cash Flows From Investing Activities		
Interest Earned	341	9,120
Net Cash Provided By		
Investing Activities	341	9,120
Net Increase (Decrease) in Cash and Cash		
Equivalents	41,374	(126,056)
Cash and Cash Equivalents - July 1, 2007	8,566	391,187
Cash and Cash Equivalents - June 30, 2008	\$ 49,940	\$ 265,131

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund	Health Insurance Fund
Operating Income (Loss)	\$ 39,605	\$ (135,176)
Adjustments to Reconcile Operating Income To Net Cash Used By Operating Activities		
Depreciation Expense	1,428	
Net Cash Provided (Used) By Operating Activities	<u>\$ 41,033</u>	<u>\$ (135,176)</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

HENDERSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	<u>Agency Funds</u>	
	<u>Jail Inmate Fund</u>	<u>Jail Escrow Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 79,843	\$ 10,989
Total Assets	<u>79,843</u>	<u>10,989</u>
Liabilities		
Amounts Held In Custody For Others	<u>79,843</u>	<u>10,989</u>
Total Liabilities	<u>79,843</u>	<u>10,989</u>
Net Assets		
Total Net Assets	<u>\$</u>	<u>\$</u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Henderson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Henderson County Public Properties Corporation

The Henderson County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Henderson County's financial statements. All activities of the Public Properties Corporation are accounted for within a governmental fund.

C. Henderson County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Henderson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Henderson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for the revenues distributed to Kentucky counties under KRS 42.455 and expenditures for certain county road maintenance projects.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: State Grant Fund, Economic Development Fund, General Obligation Bond Fund, Public Properties Corporation Debt Service Fund, and Public Properties Corporation Capital Projects Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on the 3rd Saturday in April following the delinquency date.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grant Fund, and Economic Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Public Properties Corporation Capital Projects Fund accounts for the activities of the County's capital projects. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities. The purpose of this fund is to account for funds received from bond issuances for the construction of a courts facility. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Debt Service Fund:

The Public Properties Corporation Debt Service Fund and the General Obligation Bond Fund account for the activities of the County's long-term debt. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Department for Local Government does not require the Fiscal Court to report or budget this fund.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statement or Interpretations.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The primary government reports the following major enterprise fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

The primary government reports the following internal service fund:

Health Insurance Fund - This fund accounts for the goods or services provided by one governmental department or agency to another. The Health Insurance Fund of the fiscal court is reported as an internal service fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency funds, Jail Inmate Fund and the Jail Escrow Fund, are used to account for monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Fund - This fund accounts for monies received from inmates and held until inmate use.

Jail Escrow Fund - This fund accounts for monies received from former inmates that the jailer is unable to locate.

E. Deposits

The government's cash and cash equivalents are generally considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed, respectively.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The State Local Finance Officer does not require formal budgets to be adopted for General Obligation Bond Fund, Public Properties Corporation Capital Projects Fund, and Public Properties Corporation Debt Service Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Henderson County Fiscal Court: Tourism Commission and Regional Industrial Development. .

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Henderson County Fiscal Court:

Henderson City-County Planning Commission

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and City of Henderson to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Henderson are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. During fiscal year 2008, the Fiscal Court paid the Planning Commission \$214,775.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Joint Venture (Continued)

Tri-County Recycling

The Henderson County Fiscal Court (Fiscal Court) has retained on ongoing financial responsibility for Tri-County Recycling. Tri-County Recycling is a joint venture between the Fiscal Court, Union County and Webster County, and the City of Henderson to provide recycling opportunities for each county. Each participant on a pro-rata basis pays the costs associated with Tri-County Recycling. During the fiscal year 2008, the Fiscal Court paid Tri-County Recycling \$15,982.

West Kentucky Regional Industrial Authority

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the West Kentucky Regional Industrial Authority (Industrial Authority). The Industrial Authority is a joint venture between the Fiscal Court and Union, Webster and McLean County Fiscal Courts. Upon dissolution of the Industrial Authority, assets will be returned to the participating Fiscal Courts on a pro-rata basis.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480 (1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement as follows:

- Uncollateralized and Unsecured \$89,952.

B. Investments

As of June 30, 2008, the County had the following investments, which are included in cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$5,457,000

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Interest Rate Risk.

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, non-negotiable certificates of deposit are not subject to interest rate risk.

Credit Risk.

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity; uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency; bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality of agency, thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency; and shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. Certificates of deposit are not considered a limited investment per KRS 66.480. The County had no investments policy that would further limit its investment choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk-Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. The County's certificate of deposit is included in the custodial credit risk note disclosure for deposits.

Note 3. Receivables

Henderson County Fiscal Court loaned the Henderson County Water District \$50,400 on January 10, 1990, for the purpose of the Reed/Beals waterline expansion project. This loan is to be paid back over twenty-five years with an annual payment of \$2,016 with no interest added and with the final payment in May 2013. The balance of the receivable at June 30, 2008 was \$10,080.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 518,212	\$ 15,001	\$ 533,213
Total Capital Assets Not Being Depreciated	518,212	15,001	533,213
Capital Assets, Being Depreciated:			
Buildings	19,901,976	779,291	20,681,267
Vehicles and Equipment	4,434,096	348,000	4,672,096
Infrastructure	3,199,038	438,454	3,637,492
Total Capital Assets Being Depreciated	27,535,110	1,565,745	28,990,855
Less Accumulated Depreciation For:			
Buildings	(2,425,308)	(322,437)	(2,747,745)
Vehicles and Equipment	(2,253,669)	(348,754)	(2,508,923)
Infrastructure	(616,265)	(249,807)	(866,072)
Total Accumulated Depreciation	(5,295,242)	(920,998)	(6,122,740)
Total Capital Assets, Being Depreciated, Net	22,239,868	644,747	22,868,115
Governmental Activities Capital Assets, Net	<u>\$ 22,758,080</u>	<u>\$ 659,748</u>	<u>\$ (16,500)</u>
	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
<u>Business-Type Activities:</u>			
Capital Assets, Being Depreciated:			
Vehicles and Equipment	\$ 27,000	\$	\$ 27,000
Total Capital Assets Being Depreciated	27,000		27,000
Less Accumulated Depreciation For:			
Vehicles and Equipment	(21,522)	(1,428)	(22,950)
Total Accumulated Depreciation	(21,522)	(1,428)	(22,950)
Total Capital Assets, Being Depreciated, Net	5,478	(1,428)	4,050
Business-Type Activities Capital Assets, Net	<u>\$ 5,478</u>	<u>\$ (1,428)</u>	<u>\$ 4,050</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 88,599
Protection to Persons and Property	407,817
Roads, Including Depreciation of General Infrastructure Assets	<u>424,582</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 920,998</u>

Business-Type Activities

Jail Canteen	<u>\$ 1,428</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,428</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 5. Long-term Debt

A. Courts Facility

On December 1, 2006, the Henderson County Public Properties Corporation advance refunded the court facility revenue bonds, 2000 series, issued by Henderson County Public Properties Corporation. Payments due on and after December 1, 2006 were paid from the escrow account. The bonds will be called beginning on April 1, 2010. Total bonds outstanding as of June 30, 2006 totaled \$8,725,000. As of June 30, 2008, the escrow account had a balance of \$8,558,272.

B. Detention Facility

The County of Henderson, Kentucky issued bonds dated August 1, 2003, for the purpose of (1) refunding the outstanding Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Facility Project) Series 1995 maturing June 1, 2006 through June 1, 2016 (2) paying the costs associated with the expansion, renovation, improvement, and equipping of the Detention Facility located in Henderson, Kentucky. The issue amount of the bonds was \$7,080,000. Interest on the bonds will be payable semi-annually on June 1 and December 1 of each year commencing December 1, 2003. The bonds will mature on June 1 of each year thereafter. The outstanding balance as of June 30, 2008 was \$6,540,000.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 315,000	\$ 264,571
2010	320,000	253,940
2011	335,000	242,340
2012	350,000	229,778
2013	360,000	216,653
2014-2018	2,140,000	860,018
2019-2023	2,720,000	362,473
Totals	<u>\$ 6,540,000</u>	<u>\$ 2,429,773</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

C. Courts Facility

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Refunding Bonds (Court Facility Project), Series 2006 on December 1, 2006 for the purpose of paying the costs associated with the refunding and refinancing of the Series 2000 Bonds. The issue amount of the bonds was \$9,670,000. Interest on the bonds will be payable semi-annually on February 1 and August 1 of each year commencing February 1, 2007. The bonds will mature on February 1 of each year thereafter. The outstanding balance as of June 30, 2008 was \$9,340,000.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 375,000	\$ 350,000
2010	390,000	336,406
2011	405,000	322,268
2012	420,000	307,588
2013	430,000	292,363
2014-2018	2,415,000	1,215,188
2019-2023	2,885,000	733,319
2024-2026	2,020,000	158,488
	<u>\$ 9,340,000</u>	<u>\$ 3,715,620</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 6,805,000	\$	\$ 265,000	\$ 6,540,000	\$ 315,000
Revenue Refunding Bonds	<u>9,660,000</u>		<u>320,000</u>	<u>9,340,000</u>	<u>375,000</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 16,465,000</u>	<u>\$</u>	<u>\$ 585,000</u>	<u>\$15,880,000</u>	<u>\$ 690,000</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$634,121 in interest on bonds.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

Note 7. Commitments and Contingencies

A. Industrial Revenue Bonds

The Henderson County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds and Pollution Control Bonds. Such bond issues do not constitute a general debt, liability, or moral obligation of Henderson County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these various bond issues.

B. Ambulance Service Agreement

In April 1983, the County of Henderson along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a countywide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this agreement for fiscal year ended June 30, 2008, were \$244,108.

C. Recycling Interlocal Agreement

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Henderson entered into an interlocal agreement with Union and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2008, were \$15,982.

D. West Kentucky Regional Industrial Development Authority-Kenergy Loan Guarantee

Henderson County in conjunction with Webster, Union, and McLean Counties issued an ordinance, which guarantees a portion of the \$450,000, zero-interest rural development loan made to Kenergy from the West Kentucky Regional Industrial Development Authority, to assist in promoting development of the 4Star Industrial Park. Henderson County authorized a guarantee of \$150,000. Webster County also guaranteed \$150,000 and Union and McLean Counties each guaranteed \$75,000.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 9. Deferred Compensation

On March 1997, the Henderson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Self Insurance

Henderson County Fiscal Court elected to begin a partially self-funded health insurance plan as of April 1, 1997. This partially self-funded insurance plan covers all full-time employees. County employees are required to contribute 20% of the premium payments for their plan and the County pays the remaining 80% of the County employee's coverage. The County maintains only one insurance plan with various levels of coverage (i.e. single, family, etc.). The Riverport Authority employees also contribute to this fund.

This partially self-funded insurance plan has two distinct components that the Fiscal Court must pay. The first component is fixed cost, which consists of administrative fees associated with operating the plan and specific and aggregate reinsurance costs that cap the County's claims exposure on an individual and aggregate basis. Fixed costs for the fiscal year ending June 30, 2008 were \$569,176. The second component is claims cost. Henderson County is responsible for paying all claims as they are incurred. Once an individual exceeds \$35,000 in claims or the County's aggregate claims exceed the predetermined maximum, then the County will receive reimbursement from the carrier. Claims for the fiscal year ended June 30, 2008 were \$1,000,386. The Fiscal Court's contract is with North America Administrators. The Health Insurance Fund had a balance of \$265,131 as of June 30, 2008.

Note 11. Prior Period Adjustments

The beginning net assets for governmental activities were restated for the following:

	Governmental Activities	General Fund	Road Fund	Jail Fund	LGEA
Beginning Balance	\$ 13,807,191	\$ 5,355,253	\$ 45,992	\$ 630,650	\$ 823,419
Void Prior Period Checks	47,884	839	46,824	93	128
Beginning Balance (Restated)	<u>\$ 13,855,075</u>	<u>\$ 5,356,092</u>	<u>\$ 92,816</u>	<u>\$ 630,743</u>	<u>\$ 823,547</u>

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HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,114,975	\$ 4,114,975	\$ 4,613,403	\$ 498,428
In Lieu Tax Payments	401,864	401,864	347,006	(54,858)
Excess Fees	40,000	40,000	134,903	94,903
Licenses and Permits	166,500	166,500	181,830	15,330
Intergovernmental	2,420,151	2,420,151	2,827,878	407,727
Charges for Services	2,016	2,016	4,032	2,016
Miscellaneous	57,250	57,250	122,324	65,074
Interest	100,000	100,000	204,562	104,562
Total Revenues	<u>7,302,756</u>	<u>7,302,756</u>	<u>8,435,938</u>	<u>1,133,182</u>
EXPENDITURES				
General Government	5,419,453	5,440,643	5,181,212	259,431
Protection to Persons and Property	541,463	549,766	538,398	11,368
Capital Projects	640,000	740,488	702,939	37,549
Administration	511,356	531,375	514,549	16,826
Total Expenditures	<u>7,112,272</u>	<u>7,262,272</u>	<u>6,937,098</u>	<u>325,174</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>190,484</u>	<u>40,484</u>	<u>1,498,840</u>	<u>1,458,356</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			450,000	450,000
Transfers To Other Funds	<u>(2,180,000)</u>	<u>(2,180,000)</u>	<u>(1,980,000)</u>	<u>200,000</u>
Total Other Financing Sources (Uses)	<u>(2,180,000)</u>	<u>(2,180,000)</u>	<u>(1,530,000)</u>	<u>650,000</u>
Net Changes in Fund Balance	(1,989,516)	(2,139,516)	(31,160)	2,108,356
Fund Balance - Beginning (Restated)	<u>1,989,516</u>	<u>2,139,516</u>	<u>5,356,092</u>	<u>3,216,576</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 5,324,932</u>	<u>\$ 5,324,932</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,248,227	\$ 1,354,827	\$ 1,455,049	\$ 100,222
Charges for Services	25,000	25,000	27,478	2,478
Miscellaneous	4,000	4,000	56,753	52,753
Interest	3,000	3,000	3,699	699
Total Revenues	<u>1,280,227</u>	<u>1,386,827</u>	<u>1,542,979</u>	<u>156,152</u>
EXPENDITURES				
Roads	2,948,970	3,185,570	2,727,934	457,636
Administration	713,440	583,440	571,803	11,637
Total Expenditures	<u>3,662,410</u>	<u>3,769,010</u>	<u>3,299,737</u>	<u>469,273</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,382,183)</u>	<u>(2,382,183)</u>	<u>(1,756,758)</u>	<u>625,425</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,350,000	2,350,000	2,200,000	(150,000)
Transfers To Other Funds			(525,000)	(525,000)
Total Other Financing Sources (Uses)	<u>2,350,000</u>	<u>2,350,000</u>	<u>1,675,000</u>	<u>(675,000)</u>
Net Changes in Fund Balance	(32,183)	(32,183)	(81,758)	(49,575)
Fund Balance - Beginning (Restated)	<u>32,183</u>	<u>32,183</u>	<u>92,816</u>	<u>60,633</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 11,058</u>	<u>\$ 11,058</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 4,246,367	\$ 4,246,367	\$ 5,002,650	\$ 756,283
Charges for Services	124,000	124,000	110,132	(13,868)
Miscellaneous	436,000	436,000	385,484	(50,516)
Interest	5,000	5,000	27,923	22,923
Total Revenues	4,811,367	4,811,367	5,526,189	714,822
EXPENDITURES				
Protection to Persons and Property	3,521,005	3,635,609	3,631,306	4,303
Debt Service	623,200	748,200		748,200
Administration	792,162	752,558	746,142	6,416
Total Expenditures	4,936,367	5,136,367	4,377,448	758,919
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(125,000)	(325,000)	1,148,741	1,473,741
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(637,521)	(637,521)
Transfers From Other Funds			100,000	100,000
Total Other Financing Sources (Uses)			(537,521)	(537,521)
Net Changes in Fund Balance	(125,000)	(325,000)	611,220	936,220
Fund Balance - Beginning (Restated)	125,000	325,000	630,743	305,743
Fund Balance - Ending	\$	\$	\$ 1,241,963	\$ 1,241,963

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ 120,000	\$ 120,000	\$ 101,511	\$ (18,489)
Intergovernmental	900,000	900,000	1,133,583	233,583
Miscellaneous			42,250	42,250
Interest	1,000	1,000	14,267	13,267
Total Revenues	1,021,000	1,021,000	1,291,611	270,611
EXPENDITURES				
General Government	361,800	361,800	99,216	262,584
Protection to Persons and Property	257,500	257,500	189,837	67,663
General Health and Sanitation	240,080	240,080	199,383	40,697
Social Services	329,735	329,735	157,827	171,908
Recreation and Culture	16,500	18,500	18,500	
Other Transportation Facilities and Services	32,500	32,500	32,500	
Roads	215,000	215,000	214,620	380
Capital Projects	20,000	1,500		1,500
Administration	1,000	17,500	17,500	
Total Expenditures	1,474,115	1,474,115	929,383	544,732
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(453,115)	(453,115)	362,228	815,343
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(200,000)	(200,000)	(1,075,000)	875,000
Transfers From Other Funds			875,000	(875,000)
Total Other Financing Sources (Uses)	(200,000)	(200,000)	(200,000)	
Net Changes in Fund Balance	(653,115)	(653,115)	162,228	815,343
Fund Balance - Beginning (Restated)	653,115	653,115	823,547	170,432
Fund Balance - Ending	\$	\$	\$ 985,775	\$ 985,775

HENDERSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	State Grant Fund	Economic Development Fund	General Obligation Bond Fund	Public Properties Corporation Debt Service Fund
ASSETS				
Cash and Cash Equivalents	\$ 33,426	\$ 1,358	\$	\$ 756
Total Assets	<u>33,426</u>	<u>1,358</u>	<u></u>	<u>756</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	33,426	1,358		
Debt Service Fund				756
Capital Projects Fund				
Total Fund Balances	<u>\$ 33,426</u>	<u>\$ 1,358</u>	<u>\$</u>	<u>\$ 756</u>

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2008
(Continued)

Public Properties Corporation Capital Projects Fund	Total Non-Major Governmental Funds
<u>\$ 221,834</u>	<u>\$ 257,374</u>
<u>221,834</u>	<u>257,374</u>
	34,784
	756
<u>221,834</u>	<u>221,834</u>
<u>\$ 221,834</u>	<u>\$ 257,374</u>

The accompanying notes are an integral part of this financial statement.

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HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008

HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	State Grant Fund	Economic Development Fund	General Obligation Bond Fund	Public Properties Corporation Debt Service Fund
REVENUES				
Intergovernmental	\$ 169,868	\$ 491,986	\$	\$ 681,600
Interest	27	182	1,073	1,736
Total Revenues	<u>169,895</u>	<u>492,168</u>	<u>1,073</u>	<u>683,336</u>
EXPENDITURES				
General Government		491,986		
Protection to Persons and Property	53,237			
Social Services	145,044			
Debt Service			537,521	681,600
Administration		30,432	1,073	3,115
Total Expenditures	<u>198,281</u>	<u>522,418</u>	<u>538,594</u>	<u>684,715</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(28,386)</u>	<u>(30,250)</u>	<u>(537,521)</u>	<u>(1,379)</u>
Other Financing Sources (Uses)				
Transfer From Other Funds	25,000	30,000	537,521	
Total Other Financing Sources (Uses)	<u>25,000</u>	<u>30,000</u>	<u>537,521</u>	
Net Change in Fund Balance	(3,386)	(250)		(1,379)
Fund Balances - Beginning	36,812	1,608		2,135
Fund Balances - Ending	<u>\$ 33,426</u>	<u>\$ 1,358</u>	<u>\$ 0</u>	<u>\$ 756</u>

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008
(Continued)

Public Properties Corporation Capital Projects Fund	Total Non-Major Governmental Funds
\$	\$ 1,343,454
6,876	9,894
6,876	1,353,348
	491,986
	53,237
	145,044
	1,219,121
	34,620
	1,944,008
6,876	(590,660)
	592,521
	592,521
6,876	1,861
214,958	255,513
\$ 221,834	\$ 257,374

The accompanying notes are an integral part of this financial statement.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 18, 2009. Henderson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henderson County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henderson County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Henderson County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-02 and 2008-03 to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Henderson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of material noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2008-01.

The Henderson County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Kem, Duguid & Associates, PSC

May 18, 2009

**HENDERSON COUNTY
COMMENTS AND RECOMMENDATIONS**

For the Year Ended June 30, 2008

**HENDERSON COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2008**

STATE LAW AND REGULATIONS

2008-01 The Fiscal Court Should Fix Compensation For County Employees

During our test of payroll expenditures, we were unable to find a list of employees and their corresponding compensation approved by the fiscal court. KRS 64.530(1) requires the fiscal court of each county to annually fix the compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer. We recommend that at the beginning of each fiscal year, a list of each employee, job title, and the specific compensation of each employee under its direction and control be listed and approved by the Fiscal Court. This list as approved by the Fiscal Court should be documented in the Fiscal Court Order Book. Fiscal Court should also approve any changes in compensation.

County Judge/Executive Sandy Lee Watkins' Response: Each fiscal year every employee will be required to complete and sign a form stating their wages for the year. That form will be authorized by the department head and the County Judge/Executive.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

2008-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Payroll Processes

The County has a lack of adequate segregation of duties over the receipts and payroll process. Due to the entity's diversity of official operations, small size and budget restrictions, the County has limited options for establishing an adequate segregation of duties. We recommend the county consider implementing the following procedures to help offset this internal control weakness:

- One employee should open the mail, make a list of all receipts, and restrictively endorse all items received as "for deposit only".
- The receipts should then go to another employee for further processing and deposit to the bank.
- Someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.
- Receipts collected by other departments should be recomputed or traced to source documents and verified to bank statements in a timely manner.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. This could be documented by the person initialing and dating the envelope or bank statement.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy.
- The independent person should then sign off on the bank reconciliations to verify completion.
- An independent person should compare Fiscal Court order approvals to invoices and checks prior to payment.
- The County Judge/Executive or designee independent from the payroll function should compare payroll checks to individual earnings records to verify accuracy. This could be documented by initialing and dating the earnings records.

County Judge/Executive Sandy Lee Watkins' Response: Proper Segregation of duties is impossible without more staffing.

HENDERSON COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
(Continued)

2008-03 Improvements Are Needed Regarding Proper Recording Of Capital Assets

While performing the audit, we noted that the County was not maintaining an updated capital asset listing. The County Judge/Executive's office did not have a detailed listing of fixed assets on file. The additions and retirements list for the current year was not accurate and additional items were found while performing the audit. We recommend that each department receive a detailed listing of their capital assets and be required to report quarterly, in a standardized format, any changes to their listing of capital assets. This form should be signed by the responsible individual to verify the accuracy of the information and to identify any changes. The County Judge/Executive's office should record any changes to their master listing of capital assets on a quarterly basis.

County Judge/Executive Sandy Lee Watkins' Response: The Treasurer will provide the County Judge/Executive's office with a detail listing of fixed assets that is current.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

HENDERSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

Appendix A

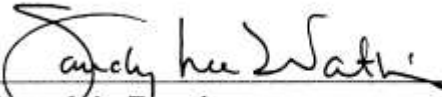
CERTIFICATE OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAMS

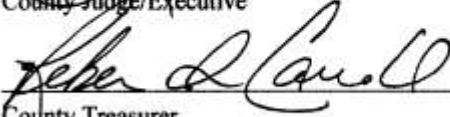
HENDERSON COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2008

The Henderson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

